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ECONOMIC REPORT  
to the GOVERNOR  
December 1974

STATE OF MONTANA  
*Thomas L. Judge, GOVERNOR*

Prepared by  
Bureau of Business and Economic Research  
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Department of Agricultural Economics  
and Economics  
Montana State University, Bozeman

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# ECONOMIC REPORT to the GOVERNOR

## December 1974

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THOMAS L. JUDGE  
GOVERNOR

## STATE OF MONTANA

# DEPARTMENT OF INTERGOVERNMENTAL RELATIONS

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*Montana's Agency for Planning & Local Affairs*

January 3, 1975

Honorable Thomas L. Judge  
Governor of Montana  
Capitol Station  
Helena, Montana 59601

Dear Governor Judge:

I am pleased to submit for your study the attached report on the state of the Montana economy.

This is one of two statements prepared for your use, and is the result of cooperative agreements between your office, departments of the state government, and the two state Universities.

The report represents the efforts of Economists at the University of Montana and Montana State University, who are also developing a more comprehensive and detailed examination of the historical factors and prospects for the economy of Montana. The project is funded by the Old West Regional Commission.

All who have contributed to the program are hopeful this document will be useful in planning more effectively for the challenges of the future.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Ron P. Richards".  
Ronald P. Richards  
Director

RPR/bam

Encl.



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## I. AS 1975 BEGINS

In common with the rest of the United States, Montana begins 1975 facing serious economic problems. The extent of these problems is not clear; many of the developments of recent weeks have not yet found their way into the measures of economic activity available as of this writing (mid-December 1974). Figures for the year—annual averages and totals—will obscure the recent declines. Thus our analysis may not be as precise or as accurate as we would like. (In later pages we discuss more fully the difficulties of current economic analysis.)

One thing is clear: most of the economic problems which the state faces have been created by external forces over which Montanans have little or no control. Worldwide inflation has created high costs of living for Montana residents. Declining national and international markets for some Montana products are resulting in unemployment in a number of Montana's export industries and in falling incomes for many Montana citizens. Wood products, copper, tourism, and cattle either have been or are likely to be adversely affected. Two other Montana products still in good demand—wheat and coal—provide bright spots in what is otherwise a rather bleak picture.

The decline in the housing market has brought hard times to the wood products industry, always a cyclical activity. Employment in a number of western Montana communities has been severely affected; more layoffs may be in store for industry workers.

Butte's underground copper mines, traditionally high cost operations, are being closed, with a presumably permanent loss of 500 to 600 jobs. Falling demand for copper in housing and automobiles may cause a further curtailment of output.

The new dimension in Montana's mining industry, fraught with problems as well as with promise of some new employment, is coal. About 600 new jobs have been added in coal mining since 1970. Further modest increases are anticipated in the next few years.

The possibility of reduced fuel supplies and/or increased prices, combined with the national recession, may well bring a reduction in tourist travel in 1975. The last few years have seen heavy investments and corresponding increases in employment in facilities serving tourists, especially in motels and restaurants. Fewer tourists may mean a loss of some of the new jobs in these businesses, as well as problems for the investors. Certainly the expansion of travel-oriented activities may be at least temporarily curtailed.

Agriculture, still generally a fairly reliable barometer of the state's economic activity, is pulling in two directions. Wheat farming areas are prosperous as wheat prices remain high. Cattle country is depressed; cattle prices are very low and not likely to improve significantly in the near future. Most of the increase in personal income in Montana since 1972 has been due to dramatic rises in farm prices and thus in farm income. A decline in total farm income at a time when nonagricultural industries are in some difficulty would have an unfortunate effect on Montana's economic fortunes.

Because Montana incomes—at least in current dollars—have risen rather rapidly in recent years, state government currently finds itself in good fiscal condition. Governments often benefit from the early stages of inflation, as tax collections increase and some expenditures remain stable. This is a temporary phenomenon; wages and salaries paid to public employees eventually must be increased and the costs of goods and other services purchased by government also rise. We suggest that this point has been reached by Montana state government and that future increases in revenue, unless the tax structure is radically altered, may be relatively small.

### §

*It is difficult to interpret and appreciate Montana's present economic situation without putting it into historical perspective. In the next few pages, we attempt to do this.*

## II. A HISTORICAL PERSPECTIVE: MONTANA'S ECONOMY, 1950 TO 1970

Montana was unusually prosperous in the years immediately following World War II, thanks largely to the favorable conditions in agriculture. The situation changed, however, beginning about 1950, when Montana's economy turned lackluster. From 1950 to 1970, the state experienced periods of above-average prosperity, but they were due mostly to unusually good years in agriculture or to other isolated events. In general, Montana's economic position relative to the rest of the nation deteriorated significantly. These events and the reasons behind them have been examined in detail in the Montana Economic Study. We will only summarize the major conclusions, and update some of the data to 1970, so that Montana's current economic situation may be put into proper historical perspective.

We begin by examining population trends because, underneath it all, an economy consists of people. Table 1 reports the population of Montana and the United States during 1950, 1960, and 1970. These figures show that during the fifties Montana's population increased significantly, but at a rate below that of the United States: the number of Montanans grew from 591,000 to 675,000, or 14.2 percent, while the nation's population rose from 151.3 million to 179.3 million, about 18.5 percent. Between 1960 and 1970 the disparity between Montana and the United States reached dramatic dimensions. By 1970, the number

of Montanans had inched upward to 694,000, a 2.8 percent gain from 1960, while the nation's population grew to 203.2 million, up 13.3 percent during the decade.

The growth of the nation's population was due primarily to an excess of births over deaths, but Montana's slow population growth cannot be attributed to either of these factors. In fact, Montana's birth rate was slightly above the national average and its death rate was about the same as elsewhere in the nation. Rather, the slow growth rate of population was primarily due to net migration, a factor which played only a minor role for the nation. Table 1 shows that during the fifties about 25,000 more persons left the state than moved in. Between 1960 and 1970 this figure rose to 58,000, representing over 8 percent of the 1960 population.

Montanans are fond of discussing the advantages of living in Montana and the desires of many people to move to the state. Yet, figures in Table 1 demonstrate that, at least between 1950 and 1970, those leaving the state far outnumbered those entering it. People move for many reasons; however, we believe that the single most important factor explaining the excessive outmigration between 1950 and 1970 was the slow growth of Montana's economy.

A state economy's health may be measured in a number of ways. We have chosen to look at trends

**Table 1**  
**Resident Population of Montana and the United States**  
**1950-70**

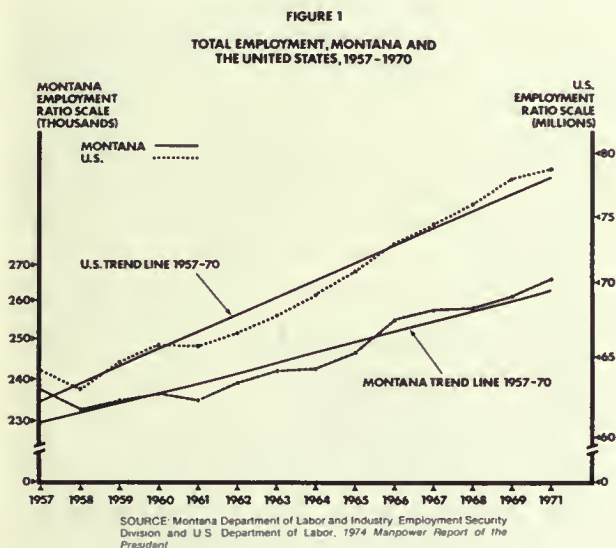
	Resident Population			Percent Change		Net Migration	
	1950	1960	1970	1950-60	1960-70	1950-60	1960-70
Montana	591,000	675,000	694,000	14.2	2.8	-25,000	-58,000
United States	151,326,000	179,323,000	203,185,000	18.5	13.3	2,642,000	3,020,000

Sources: U.S. Bureau of the Census, *Current Population Reports*, Series P-25, No. 304 (table 4) and No. 460 (table 3). Percentages derived.



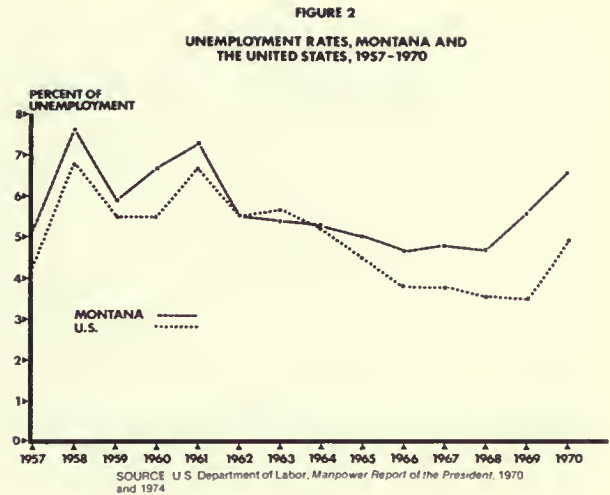
in employment, unemployment, and per capita income. Each represents a different facet of the economy and may be subject to varying interpretations; taken together, they accurately portray Montana's economic performance between 1950 and 1970.

Figures 1 and 2 present the trends in employment and unemployment for Montana and the United States between 1957 and 1970 (1957 is the earliest year for which reliable Montana data are available). Looking first at figure 1, we see that employment in Montana grew at a much slower rate than did employment in the nation as a whole. Abstracting



from the minor peaks and troughs, we find that Montana's employment grew by about 12 percent between 1957 and 1970, as compared to almost 23 percent in the United States. The unemployment data shown in figure 2 tell much the same story. Montana's unemployment rate generally follows the same up and down pattern as that for the United States; but, with several exceptions, it averaged about one full percentage point above the national figure. Thus, these data clearly suggest that Montana's economy was not creating jobs as fast as the national economy, and that many of the migrants from the state left in search of jobs.

Employment figures provide a good overall perspective of growth in an economy, but they do

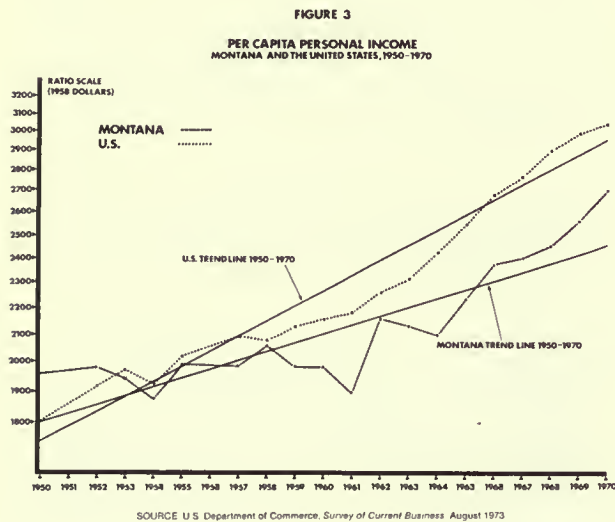


not measure the economic well-being of the residents—that is, how “well-off” they are. There is no truly accurate measure of well-being. The most widely used indicator is per capita personal income, aggregate money income divided by population. The major shortcoming of this index is that it equates well-being with money income and certainly Montanans enjoy considerable benefits which are not easily measured in terms of dollars. Per capita personal income, nevertheless, is the one measure which is readily available and easily understood.

The trends in per capita personal income, converted to 1958 dollars to eliminate the effect of inflation, for Montana and the United States are shown in figure 3. During 1950, per capita income in Montana was \$1,957; by 1970 it had risen to \$2,710. This is a significant increase and indicates that the average Montanan was certainly better off in 1970 than in 1950. During the same period, however, per capita income in the United States rose from \$1,805 to \$3,067. In other words, in 1950 the income of the average Montanan was over 8 percent greater than the average for the nation. But by 1970 this figure had dropped to more than 12 percent below the nationwide average. Although the year-to-year data show numerous peaks and troughs, the overall trend is unmistakable: per capita income in Montana grew at a much slower rate than in the United States. This suggests that while Montanans were improving their economic

position, they were not sharing in the national prosperity to the same degree as were their counterparts elsewhere in the country.

The peaks and troughs in Montana's per capita income shown in figure 3 reveal an important point



(and provide a preview of our conclusions concerning current conditions): in almost every case, the major swings may be correlated to developments in agriculture. The prosperous agricultural years of 1950, 1951, 1958, 1962, and 1966 all correspond with large upturns in per capita income in Montana. Analogously, 1954, 1959, and 1961 were years of poor harvests on Montana's farms and ranches and statewide per capita income plunged. It is obvious, too, that the ups and downs of farm income have made total per capita income far more erratic in Montana than in the country as a whole.

The data for employment, unemployment, and per capita income do not tell us all we want to know. They demonstrate that Montana's economy grew slowly between 1950 and 1970 but they do not explain why it grew slowly. A thorough discussion would require more time and space than we can spare and we refer the interested reader to the Montana Economic Study.

A brief overview of Montana's economy can be obtained by conceptually dividing it into primary and derivative industries. Primary industries are

those which depend heavily on markets outside the state or are otherwise influenced by factors originating beyond Montana's borders. The major examples are agriculture, mining, manufacturing, railroads, and the federal government. Derivative industries, on the other hand, primarily serve the local population and include such businesses as wholesale and retail trade, the services, and state and local governments. Economists believe that most economic growth occurring in relatively small areas, such as states, can be attributed to events outside the region under study and that changes in the derivative industries can be traced to changes in primary industries.

Table 2 presents Montana employment in primary and derivative industries during 1950, 1960, and 1970. It takes only a quick glance at these figures to determine why Montana's economy has been so lackluster: there has been little or no growth in jobs in the primary industries. Between 1950 and 1970, primary employment declined by over 18,000 workers. This decrease was more pronounced between 1950 and 1960, when almost 17,000 primary jobs were lost, than during the sixties, when a much more moderate decrease of 1,500 jobs occurred. The major factor causing the declines in primary employment was agriculture; the number of workers on Montana's farms and ranches dropped from almost 53,000 in 1950, to 39,000 in 1960 and then to 36,000 in 1970. For the most part, this resulted from the consolidation of farm and ranch units and reflects long-run agricultural trends occurring in Montana and throughout the nation. Agriculture, however, is not the whole story; there were also significant declines in the number of workers in mining and railroads—totalling 11,000 over the twenty-year period.

On the bright side, there were increases in wood products and in federal government employment; between 1950 and 1970, the former grew by almost 3,000 workers and the latter by 3,600 workers. But the growth of these industries, plus the addition of about 3,000 jobs in other industries, was not sufficient to counterbalance the declines in agriculture, mining, and railroads.

The relationships between primary and derivative industries are subtle and complex. In

**Table 2**  
**Civilian Employment in Montana, 1950-70**

Industry	Civilian Employment (Thousands)			Change in Employment (Thousands)		Distribution of Employment (Percent)		
	1950	1960	1970	1950-60	1960-70	1950	1960 <sup>1</sup>	1970
Primary industries	103.3	86.6 <sup>1</sup>	85.1	-16.7 <sup>1</sup>	-1.5 <sup>1</sup>	100.0	100.0	100.0
Agriculture	52.8	39.2	36.1	-13.6	-3.1	51.1	45.3	42.4
Mining	10.2	7.9 <sup>1</sup>	6.6	- 2.3 <sup>1</sup>	-1.3 <sup>1</sup>	9.9	9.1 <sup>1</sup>	7.8
Metal mining	7.8	5.0 <sup>1</sup>	4.0	- 2.8 <sup>1</sup>	-1.0 <sup>1</sup>	7.6	5.8 <sup>1</sup>	4.7
Coal mining, oil and gas extraction, and non-metallic mining	2.4	2.9	2.6	0.5	-0.3	2.3	3.3	3.1
Manufacturing	18.0	20.6 <sup>1</sup>	23.9	2.6 <sup>1</sup>	3.3 <sup>1</sup>	17.4	23.8 <sup>1</sup>	28.1
Food and kindred products	4.2	4.3	4.3	0.1	0.0	4.1	5.0	5.1
Lumber and wood products	5.4	7.3	8.2	1.9	0.9	5.2	8.4	9.6
Primary metals refining	4.0	4.0 <sup>1</sup>	4.7	0.0 <sup>1</sup>	0.7 <sup>1</sup>	3.9	4.6 <sup>1</sup>	5.5
Other manufacturing	4.4	5.0	6.7	0.6	1.7	4.3	5.8	7.9
Railroads	14.0	9.0	6.6	- 5.0	-2.4	13.6	10.4	7.8
Federal government	8.3	9.9	11.9	1.6	2.0	8.0	11.4	14.0
Derivative industries	125.2	150.3	180.6	25.1	30.3	100.0	100.0	100.0
Nonrail transportation, commu- nications, and utilities	7.9	10.0	10.8	2.1	0.8	6.3	6.7	6.0
Contract construction	10.5	11.0	11.0	0.5	0.0	8.4	7.3	6.1
Wholesale and retail trade	36.7	40.5	48.1	3.8	7.6	29.3	26.9	26.6
Services and finance	23.4	30.0	41.8	6.6	11.8	18.7	20.0	23.1
State and local government	20.0	28.6	40.7	8.6	12.1	16.0	19.0	22.5
All other employment	26.7	30.2	28.2	3.5	-2.0	21.3	20.1	15.6
Total employment	228.5	236.9 <sup>1</sup>	265.7	8.4 <sup>1</sup>	28.8 <sup>1</sup>			

Sources: University of Montana, Bureau of Business and Economic Research, *Research Report of the Montana Economic Study*, pt. 1, vol. 2, chap. 2, table 2.4; and Montana Department of Labor and Industry, Employment Security Division, *Montana Employment and Labor Force*, table C (revised March 1974). Percentages derived.

Notes: The data have not been adjusted for residence and multiple job holders. Percentage detail may not add to totals because of rounding.

<sup>1</sup>Adjusted to eliminate effects of strike.

some cases, a direct connection between primary and derivative jobs may be established and employment multipliers may be estimated. But, over a period as long as a decade, many other changes take place which also affect employment relationships. Growing affluence, for instance, creates an increased demand for both private and public services; employment figures in those industries reflect this increase. Thus, the expansion in derivative employment shown in table 2 does not conflict with the decreases in primary employment. Notice, however, that the growth in derivative employment in the fifties was smaller than in the sixties. This correlates with the overall trend in

primary employment, which declined more during the former than the latter period.

The overriding impression of the evidence presented so far has been Montana's dismal economic growth. While this is undoubtedly true, it does not mean that Montana's economy was stagnant or that no changes took place. Among the primary industries, the major event was the relative decline in agriculture (table 2). During 1950, farms and ranches accounted for 51 percent of total primary employment. By 1970, this figure had dropped to 42 percent. Despite this precipitous decline, agriculture remains the largest single employer among Montana's primary industries.



Similarly, the aforementioned declines in mining and railroads, and the growth in wood products, the federal government, and several other industries, are reflected by their changing proportions of total primary employment. In general, we conclude that Montana in 1970 was much less dependent on agriculture than in 1950; but farms and ranches continue to make up the major share of this state's economic base.

There were also major alterations in the composition of Montana's derivative industries. In 1950, wholesale and retail trade was the single largest category and accounted for 29 percent of total derivative employment. Over the next twenty years, employment in the services and in state and local government grew at a greater than average rate and almost equaled trade's relative share by 1970. Thus, in 1950 we could describe the representative derivative worker as most likely to be in wholesale or retail trade. But, twenty years later, he could just as well be a medical technician, a public school teacher, or a policeman.

The increasing concentration of employment in relatively low-paying industries—especially trade and services and state and local government—goes a long way toward explaining the failure of per capita incomes in Montana to keep up with national income growth.

In summary, we have seen that Montana's population grew at a rate far below the national average between 1950 and 1970 due, primarily, to

net outmigration. We believe the major determinant of this net flow of people from the state was that an insufficient number of new jobs was created. Also, the average level of economic well-being, as measured by per capita income, failed to keep pace with the increases experienced elsewhere in the nation. This slow economic growth may, in turn, be traced to the poor performance of Montana's primary industries. This does not imply that Montana's economy was static and unchanging. The traditional bulwarks of agriculture, mining, and railroads lost some of their preeminence to wood products, the federal government, and several other industries. In addition, the service industries and state and local government increased their employment substantially.

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*This, briefly, is a description of major economic trends in Montana in the fifties and sixties. Since 1970, there have been some signs, and a good deal of discussion to the effect that things are changing in Montana: the market for Montana's agricultural products appears rosy, Montana is becoming more urbanized, and more and more people from out of state appear to be coming here to live.*

*Further perspective on our present economic condition can be gained by looking more closely at the events of the past five years.*

### III. 1970-1974: A TIME OF CONTRADICTIONS?

There are many pitfalls involved in attempting to analyze recent economic events. Above all, there is the paucity of up-to-date and accurate numbers. Economic data are notoriously behind the times. We are just now receiving some of the information for 1972, and it will be two more years until certain 1974 figures are available. While we do have some relatively recent data measuring certain aspects of the economy (such as employment and personal income), the more detailed background information, which enables the analyst to correctly interpret the broad aggregates, is simply not yet available.

Current economic analysis is fraught with dangers because the period is often too short to put things in perspective. The ups and downs and little squiggles shown in figures 1 to 3 begin to make sense only when viewed over a long period. It is very difficult to discern the underlying trends or changes in conditions by looking at data for only three or four years. Also, certain events can focus attention on tendencies which may have existed for a long time but were simply not noticed. The energy crisis, which had been building for many years, did not come to the forefront until the oil embargo.

All in all, we feel very humble about our attempts to assess economic events in Montana since 1970. Our analysis is phrased in speculative terms and includes many qualifiers because we simply do not have sufficient data to make definite conclusions. We would not be surprised if, rereading this material several years from now, our explanations appear naive and turn out to be far from accurate.

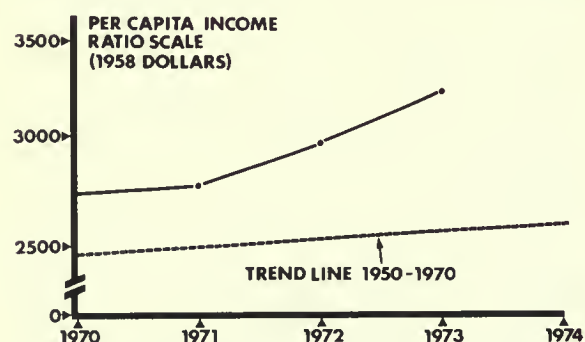
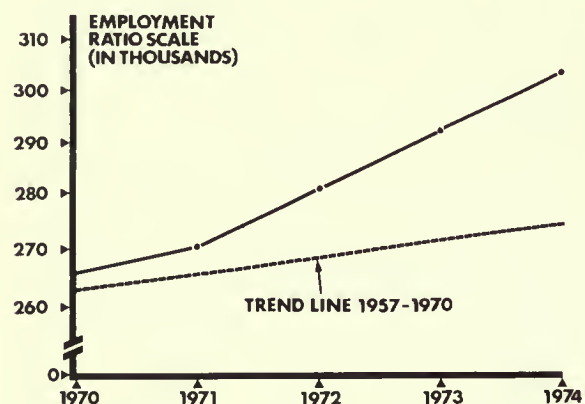
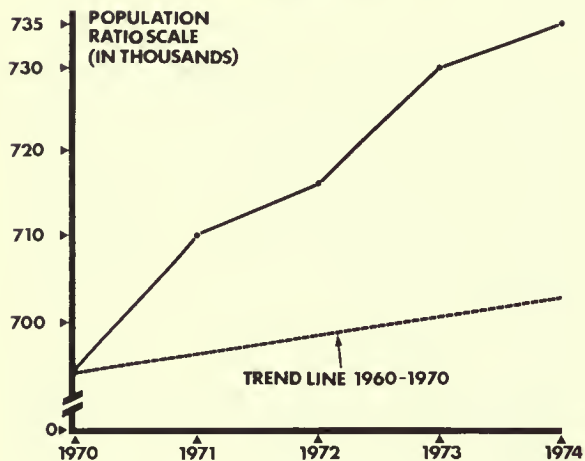
Figure 4 presents the data for population, employment and per capita income in Montana since 1970. According to preliminary estimates, Montana's population was 735,000 on July 1, 1974, up from about 694,000 in 1970. These population figures should be taken with a grain of salt because they are only estimates and are not as reliable as the actual counts provided by the census. (We will have

more to say about population later.) Total employment and per capita income (in 1958 dollars) had moderate increases from 1970 to 1971. Beginning in 1972, estimates of both turned sharply upward, with inferred growth rates significantly greater than their historical trends. In both cases, however, the latest figures still are preliminary estimates and future revisions may be quite different.

All in all, these figures seem to indicate that Montana's economy has not performed badly since 1970; population, employment, and per capita income all are exceeding their historical trends and their growth rates may even be accelerating. There are, however, other factors which dampen our optimism. As we mentioned earlier, the data are incomplete and we are unable to put things into perspective. Nevertheless, there is contradictory evidence and we would be hesitant to conclude that the Montana economy has turned a corner and broken the trend of slow growth. The reasons behind our reservations are outlined briefly here; many of them will be expanded further when we later look at individual sectors of Montana's economy.

Looking first at employment (table 3), we are encouraged by the increase in primary employment but our enthusiasm is dampened for a number of reasons. According to the estimates, the growth was distributed among all the major primary industries except railroads. We are skeptical of the figures for agriculture, which show an increase of 400 workers. While they seem to indicate a break in the long downward trend in this industry, we know that agricultural employment is very difficult to estimate and that these figures may be the most unreliable of all the numbers reported in table 3. Given the estimating methods, a change of 400 out of 36,000 should not be taken too seriously. The best that we can say is that it appears that between 1970 and 1974 people did not leave farms and ranches as fast as during previous

FIGURE 4

MONTANA'S POPULATION, EMPLOYMENT  
AND INCOME SINCE 1970

SOURCES: U.S. Bureau of the Census; Montana Department of Labor and Industry, Employment Security Division; U.S. Department of Commerce, Bureau of Economic Analysis.

Table 3  
Civilian Employment in Montana, 1970 and 1974  
(In Thousands)

Industry	1970	1974 <sup>1</sup>	Change 1970-74
Primary industries	85.1	87.6	2.5
Agriculture	36.1	36.5	0.4
Mining	6.6	7.4	0.8
Metal mining	4.0	4.2	0.2
Coal mining, oil and gas extraction and non- metallic mining	2.6	3.2	0.6
Manufacturing	23.9	24.5	0.6
Food and kindred products	4.3	4.0	-0.3
Lumber and wood products	8.2	9.4	1.2
Primary metal refining	4.7	3.4	-1.3
Other manufacturing	6.7	7.7	1.0
Railroads	6.6	6.4	-0.2
Federal government	11.9	12.8	0.9
Derivative employment	180.6	214.9	34.3
Nonrail transportation, com- munications, utilities	10.8	13.1	2.3
Contract construction	11.0	13.0	2.0
Wholesale and retail trade	48.1	59.3	11.2
Services and finance	41.8	54.0	12.2
State and local government	40.7	44.5	3.8
All other employment	28.2	31.0	2.8
Total employment	265.7	302.5	36.8

Source: Montana Department of Labor and Industry, Employment Security Division, *Montana Employment and Labor Force* and unpublished data.

Note: These data have not been adjusted for residence and multiple job holders.

<sup>1</sup>Average for the first ten months of the year.

periods. It should be kept in mind that the departure of some may have been only temporarily postponed due to the current prosperity in agriculture.

The largest number of new jobs (1,200) was provided by the wood products industry. But 1970 is not a good year for comparison purposes; it was not a good year for the forest industries. If the 1974 figure is compared to employment in 1968 and 1969, the increase amounts to only 500 jobs. And, unfortunately, in recent weeks all of the growth, however computed, has been temporarily wiped



out by the effects of the decline in the housing market.

Primary metals refining, another of Montana's major manufacturing activities, is estimated to have employed some 1,300 fewer workers in 1974 than in 1970. Much of this loss occurred in Great Falls, with the closure of the Anaconda plant there.

Most of the growth in mining employment (about 600 workers) occurred in the eastern Montana coal fields. Unfortunately, much of this gain may be cancelled by the loss of some 500 to 600 jobs in Butte's underground mines during the next few months. There will be further modest increases in coal mining employment over the next few years.

We will analyze the reported increase of 34,000 in derivative employment in greater detail later in the report, but, for now, we will simply outline some of the evidence which we believe suggests that this growth may be overstated or misunderstood and/or temporary. In the first place, a disproportionate share of the increase in derivative jobs may be directly or indirectly associated with the recent prosperity in agriculture. Whether or not this prosperity—already limited to crop producers—will continue is open to question.

We suspect also that the large increase in employment does not necessarily mean a large growth in population. We think that many of the new jobs in derivative industries have gone to Montanans—to young people or working wives. That is, the growth in employment in these industries probably reflects an expanded pool of Montanans willing to work rather than an influx of workers from out of state. The "natural increase" in the labor force—the excess of young people entering the prime working ages over those retiring—has greatly enlarged the state's potential work force. Also, there has been a revolution in the working habits of women. More and more females have entered the labor force and many have taken jobs in the trades and services, the industries which have shown the greatest growth in employment. Many of these jobs may be seasonal, part-time, or low paying. The actual increase might be more moderate if employment were converted to full-time equivalent (FTE) positions.

We have made some very rough projections

incorporating the "natural increase" in the labor force and the rise in female labor participation. These projections, which are based on preliminary and incomplete data, suggest that the recent increase in employment was just about sufficient to provide jobs for the persons living in Montana during 1970. Obviously, there has been a flow of people in and out of Montana. Although we cannot estimate the numbers going in either direction, our projections suggest that there need not have been an excessive influx of out-of-staters to fill the new positions available in Montana.

We should note that Montana is fortunate in being able to provide these jobs for its residents. Insofar as many of them have gone to second earners in a family, they have increased family and per capita incomes. Our concern is that some workers may have been forced to settle for part-time, seasonal jobs when they preferred and were qualified for—and needed—full-time, higher-paying employment.

We do not want to be misinterpreted. We are not saying that the 1970-74 increases in employment are illusory. Nor do we believe the healthy increases in derivative employment contradict the slow growth in the primary industries. (The relationship between primary and derivative industries is not that precise; both the fifties and sixties saw rising derivative employment accompanying declines in primary industries.) Rather, we simply view the apparent increases in total employment with a degree of skepticism and prefer to wait for further data before making any conclusions. Aside from the coal mining industry, conditions in the primary industries, representing Montana's economic base, do not appear to have changed from the sixties, and the remarkable growth in derivative industries may have been accentuated by some unusual conditions.

As we mentioned earlier, the population data shown in figure 4 are simply estimates and are not as reliable as the actual count of persons provided by the *Census of Population*. These estimates are prepared by the Census Bureau which uses a standardized methodology for all states. The procedures may work well for more populous states, but we have reservations about their application to Montana. For example, the annual

intercensal population estimates for Montana during the sixties display characteristics which appear contrary to trends in other economic data. Thus, it is our feeling that these figures probably overestimate the increases in population since 1970.

Finally, the sharp upward trend in per capita personal income corresponds closely with the recent prosperity in agriculture, and one is likely (in fact, almost certain) to be led astray if he attaches much significance to those increases. It is true that Montana experienced some relative income gains, compared to the United States average, during the early 1970s. Not only have these gains been modest, but they may not be permanent. Most of the recent Montana income gain has been a result of the general increase in agricultural prices. According to U.S. Department of Commerce figures, between 1972 and 1973 Montana farm income increased by \$202 million or 44.4 percent (about 37 percent in real terms), while nonfarm income increased by \$192 million or 10.4 percent (about 5 percent in real terms). As we point out in Part IV, the recent gains in farm income are largely a result of cyclical forces, and probably will not be sustained.

Income figures for all of 1974 are not yet available. Preliminary estimates for a part of the year indicate that real personal income is declining—a trend which appears to have begun in

the third quarter of 1973 (table 4). Total personal income in Montana in 1974 will be high, but in real terms it may be lower than in 1973. (The same thing, of course, has been happening at the national level.) The very rapid increases which the state experienced in 1972 and 1973 may not be repeated in the foreseeable future.

**Table 4**  
**Total Real Personal Income in Montana**  
**Last Half of 1973 and First**  
**Three Quarters of 1974**  
**(In Millions of 1958 Dollars)**

Year and Quarter		Total Personal Income
1973:	III	2,373
	IV	2,345
1974:	I	2,275
	II	2,128
	III	2,047

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; and third quarter of 1974 estimated from data in *Business Week* (December 7, 1974).

Note: The original personal income data were adjusted at annual rates for seasonal fluctuations, and these figures were converted to "real" (constant or 1958) dollars by use of the implicit price deflator for gross national product (GNP) personal consumption expenditures.

## IV. A CLOSER LOOK AT SOME SIGNIFICANT DEVELOPMENTS

Because developments during the past few years have been somewhat contradictory and because our analysis of the current situation thus far has been rather brief and general, we present the following section, which deals with certain crucial industries and events which we think are of particular importance to Montana at this time. The choice of industries is fairly obvious: agriculture, wood products, mining, and the derivative industries. We conclude with a brief discussion of the implications of inflation and of our assessment of the state's economic outlook on state revenues and expenditures.

### *Agriculture: Exerting a Strong Influence on the Economy*

The most significant feature of the Montana economy in recent years has been the unprecedented agricultural prosperity in 1972 and 1973 (see figures 5 and 6). Total net farm income in 1972 was 94 percent above the post-World War II average; in 1973, it was 188 percent above the postwar average. On a per farm basis, the comparison is even more dramatic. In 1972, net income per farm exceeded the postwar average by 126 percent and in 1973 by 242 percent.

Even after adjustment for changes in price levels, the gains in farm income were large. In 1972, total net farm income for the state in real terms was 47 percent above the postwar average; in 1973, it was almost double the postwar average. So, all in all, 1972 and 1973 were extremely prosperous years for most Montana farmers and ranchers, and for many of the businesses serving them.

Agriculture is largely responsible for the modest increase in Montana's overall economic fortunes. In both 1972 and 1973, the state's per capita income increased more than that for the nation as a whole. Montana's increase was 10.4 percent for 1972 and 14.7 percent for 1973, compared to 8.4 percent and 10.8 percent respectively for the United States as a



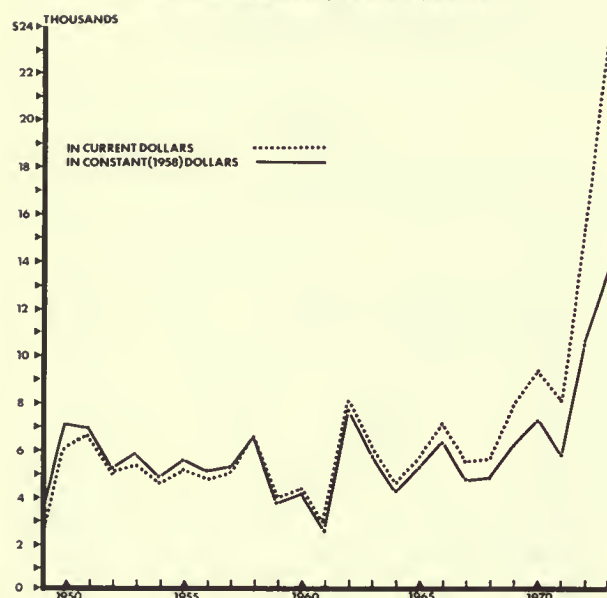
whole. But Montana's improvement was due largely to changes in farm income. Of the total dollar increase of \$749 million in personal income between 1971 and 1973, \$387 million or 52 percent went to persons engaged in agriculture. Farm income increased by over two-thirds (68.5 percent) between 1971 and 1972, compared to 10.3 percent for the nonfarm figure; between 1972 and 1973 the comparable increases were 44.4 and 10.4 percent respectively. All of these figures come from the Bureau of Economic Analysis, U.S. Department of Commerce.

The reason for the recent improvement in Montana's agricultural fortunes lies mainly in the dramatic increase in farm product prices during 1972 and 1973 (figures 7 and 8). Farm product prices began to rise rapidly in 1972 and the rise accelerated during 1973. Montana farm product prices in the aggregate rose by about one-third



FIGURE 6

## NET INCOME PER FARM, MONTANA, 1949-1973



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Prices adjusted by U.S. Department of Agriculture, Index of Prices Paid by Farmers for all Commodities and Services, Interest, Taxes, and Wage Rates.

FIGURE 7

## WHEAT PRICES RECEIVED BY MONTANA FARMERS, 1947-1974



SOURCE: Montana Crop and Livestock Reporting Service. Prices adjusted by U.S. Department of Agriculture, Index of Prices Paid by Farmers for all Commodities and Services, Interest, Taxes, and Wage Rates.

during 1972 and by 44 percent during 1973. Since grain (largely wheat) and cattle and calves constitute about 85 percent of Montana's farm income, most of the rise in overall farm product prices was due to the dramatic rise in wheat and beef cattle prices. Average Montana wheat prices rose from \$1.40 per bushel in August 1972 to \$4.42 a year later and to \$5.45 in early 1974. Montana beef cattle increased from \$34.50 per hundredweight in August 1972 to \$55.30 in August 1973.

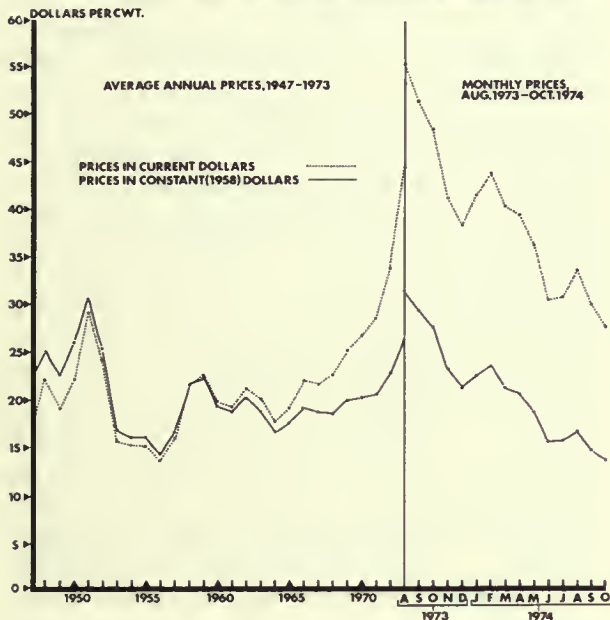
Montana farm product prices have already softened considerably since the high point in 1973. The index of prices for all Montana farm products fell 22 percent between August 1973 and October 1974. Wheat prices, although still strong, are currently (October 1974) 13 percent below their recent high. The prices of beef cattle and calves have declined precipitously from their 1973 peaks. In October 1974, average Montana beef cattle prices were 50 percent below the August 1973 high. (Montana Crop and Livestock Reporting Service.)

It appears that 1974 Montana gross farm income in current dollar terms will be about as high as in

1973. U.S. Department of Agriculture estimates indicate that during the first nine months of 1974, cash receipts from the marketing of crops were about 34 percent higher than for the same period in 1973. Cash receipts from the marketing of livestock during January-September 1974 were about 15 percent below the same period in 1973. On balance, total farm marketings in 1974 should at least equal those in 1973. Net farm income, however, will probably be lower. In terms of current dollars, net farm income for the state in 1974 should approximate the \$394 million in 1972.

What will happen to the Montana farm economy over the next two years or so? This is an important question for Montana because of the vital role that agriculture currently plays in the economy of the state. The farm sector provided about a fifth of Montana's personal income in 1973 and almost a sixth in 1972. If farm income deteriorates during the next two years, the general economy of the state will suffer. As we noted earlier, even with the income gains brought about largely by agriculture during 1972-73, Montana has been suffering a

FIGURE 8  
BEEF CATTLE PRICES RECEIVED BY MONTANA FARMERS, 1947-1974



SOURCE: Montana Crop and Livestock Reporting Service. Prices adjusted by U.S. Department of Agriculture, Index of Prices Paid by Farmers for all Commodities and Services, Interest, Taxes, and Wage Rates.

decline in real income per person since the middle of 1973.

Montana's economic fortunes over the next two years hinge to a large extent on what happens to wheat and cattle prices. Wheat prices are still close to the 1973 peak. But how long can they stay there? Wheat prices have always been extremely volatile, moving up during periods of war and international inflation and subsiding when such conditions recede. Variable weather conditions add to price volatility. Combinations of inflation and recession now characterize almost the whole of the industrialized world. Under these conditions, it seems unlikely that the rampant international demand for grain that existed in 1973-74 will continue for long. If weather conditions in the United States and other grain growing countries turn out to be more or less normal in 1975, wheat prices could decline considerably. In any event, it appears certain that the current level of wheat prices cannot be maintained indefinitely. Whether the break comes in 1975 or later is open to question.

While wheat prices are high, cattle prices are low. Montana beef cattle prices in real terms (i.e., adjusted for changes in the purchasing power of the dollar) are lower than they have been since the 1930s. This circumstance results largely from the cattle cycle. Cattle numbers in the United States have been expanding since 1967. From 1967 to the middle of 1973, beef cattle prices rose steadily. Normally, a contraction in cattle numbers begins to take place when prices fall. The heavy marketing of cattle in 1974 points to such a contraction. Nevertheless, some build-up in cattle numbers is expected for another year or two. This means no contraction in absolute terms until 1976 or 1977. Until that time, beef cattle prices are likely to remain more or less depressed. There may be some improvement in beef cattle prices in 1975, but the improvement is not expected to be great. On balance, the odds seem to favor lower Montana farm product prices during 1975-76.

The condition of agriculture has been a perpetual problem in Montana and will continue to be so. At the same time, this is a problem that neither the Montana state government nor the Montana public can do much about. Most of the forces that determine the destiny of Montana agriculture are either fortuitous or they are external in origin. Montana agriculture is subject to international and national forces that are not generally amenable to state control or modification. Most facets of agricultural policy can only be adjusted at the national or international levels.

But there are some things that the state government can do to assist Montana agriculture:

1. Continue to provide the necessary resources for agricultural research, education, and extension.
2. Consider changes in state tax laws, especially the income tax law, that would eliminate the penalties inflicted on farmers and ranchers by progressive tax rates in years of unusually high incomes. Some form of income tax "indexing" to lessen such effects may be desirable for both the farm and nonfarm sectors in a state where many incomes tend to be quite volatile.

## *Wood Products: Problems in Western Montana*

The wood products industry ranks as Montana's leading manufacturing industry and is of overwhelming importance in western Montana. Its growth between 1950 and 1969 (together with that of the University of Montana) kept western Montana moving ahead in terms of increased incomes and expanded employment opportunities. A recent report by the University of Montana's Bureau of Business and Economic Research estimated that as much as 43 percent of employment and 51 percent of income in eight western Montana counties are directly or indirectly dependent upon timber activities.

In spite of some rather severe cyclical fluctuations, the wood products industry until recently had recorded a significant increase in employment since 1969—from an average of 8,900 wage and salary workers that year to 9,700 in 1973. (We use 1969 as a benchmark in this discussion because 1970 was a very poor year for the industry and therefore is not a good choice for comparisons. Likewise, 1973 represents the recent high mark, with employment declining in 1974. The data are from the Employment Security Division.)

The past five years have seen considerable change and turmoil within the industry. A number of small sawmills have ceased operation permanently, and more may do so; it is increasingly difficult for such plants to compete. Two new particleboard plants represent progress toward greater utilization of the forest resource. A large new plywood plant is operating in the Missoula area. The pulp and paper mill at Missoula has been given permission to expand its operation; however, there has been no announcement as to when construction might begin.

Accompanying the movement toward greater product diversity have been changes in ownership which have accelerated a trend towards integrated operations and large corporate ownership. The era of the small independent operation is almost over; the Montana industry today consists chiefly of large corporations with a combination of operations designed to better utilize the forest resource and

with the financial ability to provide the technology necessary to compete in today's markets.

Questions with respect to the management of national forest lands and the volume of timber harvested have been issues of primary concern to the industry, the public, and the U.S. Forest Service throughout this period. In 1969, about 60 percent of the timber used by Montana producers came from national forests. Since that year, changes in Forest Service policies and practices have resulted in a reduction in the volume of national forest timber sales which has created considerable concern in the industry. Part of the decline in the volume of Forest Service timber harvested has been offset by increased cutting on private lands. In the meantime, the volume of Forest Service timber under contract has declined substantially—from 2.0 billion board feet in 1970 to 1.3 billion in 1974. The Forest Service says that new regulations governing sale preparation mean that increased personnel are needed to insure that the annual allowable cut can be offered for sale each year. Both the industry and the agency have requested federal funds for more intensive forest management. While some of the most productive timber growing areas are in other parts of the United States, the best sites in Montana will compare favorably with other regions and should be eligible for such investment, if and when Congress is willing to appropriate money for that purpose.

Wood products is a volatile industry, strongly affected by changes in housing construction. Thus, since 1969 the industry has experienced two downturns, one which began in late 1969 and lasted till early 1971, and the current, sharp decline which began in late 1974. With U.S. housing starts far below a year ago, the timber industry in Montana currently is in difficult circumstances. The full extent of the decline is difficult to determine. According to the Employment Security Division, employment in the industry fell off by about 2,000 workers between September 15 and October 15. The October estimate of 7,900 workers was 2,400 below the seasonal peak of 10,300 in August and was the lowest October figure since 1961.

We know that there have been further layoffs since mid-October, but we do not know how



many; nor do we know how many workers have been affected by shortened work weeks. This type of concealed unemployment—or underemployment—does not show up in labor force figures.

Western Montana will feel the pinch of reduced employment and incomes in the industry this winter. Unfortunately, there appear to be few prospects for offsetting losses in wood products employment. In the Missoula area, construction of the paper mill addition would be a real boost if it gets under way. Some experts think there may be an improvement in housing starts by the middle of next year. If a recovery does begin then, it may be late in the year before western Montana lumber and plywood plants feel the effects.

It is worth noting that when the housing market does improve, the pressure for increased Forest Service sales will rise along with lumber production, and the issue of Forest Service policies and financing may again be front page news.

### *Mining: Some Good News, Some Bad News*

Table 3 shows that employment in the mining industry, long a mainstay of Montana's economy, increased by 800 between 1970 and 1974. About 200 of these additional jobs were in metal mining, which primarily consists of the operations in and around Butte. These figures do not reflect the announced reduction of 500 to 600 underground miners. It has been fairly common knowledge that underground mining has become relatively more costly. So, these reductions do not come as a real surprise. It is unfortunate that they are scheduled for this winter, however, as it cannot help but add to the problems caused by the depressed conditions in the wood products and other industries.

Recent events suggest a softening in the copper market and this may lead to further declines in Montana's mining activity. We believe these vacillations are simply a continuation of past cycles in the worldwide demand and prices of raw materials. It would not surprise us to see a general decline in mineral prices (excluding coal, gold, and

silver, which are influenced by some unique factors) similar to that of the early fifties.

Between 1970 and 1974 there were about 600 new jobs due to increased coal mining in southeastern Montana. Most of this coal has been sold to Midwestern utilities on medium and long-term contracts, and it is unlikely that employment in the coal mines will show the same cyclical ups and downs as other types of mining. Thus, we view these positions as being a relatively stable and secure addition to Montana's economic base. We expect a further modest increase in coal mining employment over the next few years.

### *Derivative Industries: Where the Jobs Are*

Most of the increased employment in Montana between 1970 and 1974 occurred in the derivative industries. In this section we will examine the derivative sector in more detail and attempt to outline some of the factors we believe to be behind these trends.

Table 5 shows 1970 and 1974 employment in Montana's derivative industries. These are the same data presented earlier in table 3 except that several of the industries have been subdivided to facilitate a more detailed analysis. Employment increased between 1970 and 1974 in each of the derivative industries, but retail trade and the services accounted for a disproportionate share of the growth. In fact, the combined growth of 18,900 workers in these two industries represents 55 percent of the total rise of 34,300 jobs in all derivative industries.

Before turning to our analysis, we would like to put the jobs in derivative industries into proper perspective by examining their average earnings as compared to jobs in the primary industries. Table 6 presents the average 1973 earnings for wage and salary workers in selected primary and derivative industries. These figures suggest that, in general, workers in derivative industries earn less than their counterparts in the primary industries. The highest earnings are the \$11,050 per year in mining and \$12,250 per year for federal government employees. While the average for all manufacturing is significantly lower, at \$8,960 per

Table 5

**Employment in Derivative Industries in Montana  
1970 and 1974**

(In Thousands)

Industry	1970	1974 <sup>1</sup>	Change 1970-74
Wholesale trade	9.8	12.2	2.4
Retail trade	38.3	47.1	8.8
Eating and drinking places	10.4	14.4	4.0
All other retail trade	27.9	32.7	4.8
Finance, insurance, and real estate	8.1	10.2	2.1
Services	33.7	43.8	10.1
Hotels, motels	4.0	6.3	2.3
All other services	29.7	37.5	7.8
State and local government	40.7	44.5	3.8
Nonrail transportation, communication, and public utilities	10.8	13.1	2.3
Contract construction	11.0	13.0	2.0
All other employment	28.2	31.0	2.8
Total derivative employment	180.6	214.9	34.3

Source: Montana Department of Labor and Industry, Employment Security Division, *Montana Employment and Labor Force* and unpublished data.

<sup>1</sup>Average for the first ten months of the year.

year, certain industries such as primary metal refining and paper production pay well above this figure. On the other hand, annual earnings in wholesale and retail trade and the services, where over 40 percent of derivative workers are concentrated and where most of the recent growth has occurred, averaged only \$5,880 and \$4,920 per year, respectively. It should be noted that the figures in table 6 represent annual earnings for people who work all year; thus, in an industry such as construction, where many workers suffer some seasonal unemployment, actual earnings may be considerably lower.

Earlier in this report we stated that the rapid growth in derivative employment since 1970 may not represent sustainable economic growth. We would like to discuss our reasons for saying this but,

Table 6

**Annual Earnings of Wage and Salary Workers  
in Selected Montana Industries  
1973**

Industry	Earnings
Mining	\$11,050
Manufacturing	8,960
Federal government	12,250
Construction	10,070
Nonrail transportation, communication, and public utilities	9,330
Wholesale and retail trade	5,880
Finance, insurance, and real estate	7,200
Services	4,920
State and local government	7,090

Sources: Montana Department of Labor and Industry, Employment Security Division and U.S. Department of Commerce, *Survey of Current Business* (August 1974), table 54.

first, we must reiterate that these are not hard and fast conclusions. The data are incomplete and the time period too short to establish long-run trends. Further evidence (when it becomes available) may be contradictory or may suggest a different underlying phenomenon. In short, the following paragraphs are our best guesses as to the meaning of the current data; but they are just guesses and may be modified in light of further information.

### **State and Local Government: A Trend Toward Slower Growth**

During the sixties, state and local government was the fastest growing derivative industry in Montana. Employment continued to increase between 1970 and 1974, but at a slower rate. We believe the rapid rise in state and local government during the sixties may be largely attributed to the postwar baby boom. A large proportion of state and local government employees, especially local government employees, are directly associated with education. The number of births during the late forties, fifties, and early sixties led inevitably to increased demands on education. The recent decline in the birth rate suggests that there will be fewer children entering school and less pressure on



state and local governments to expand these facilities.

### **Tourism: A Major Contributor to Increased Employment**

About one-third of the increase in retail trade and service employment between 1970 and 1974 occurred in eating and drinking places and in hotels and motels. Although they also serve local people, these businesses traditionally have been used to represent developments in Montana's tourist industry. The substantial increases in employment appear to reflect a prosperous and growing tourist industry. Certainly 1974, perhaps with the help of Spokane's Expo, was a good year for the travel business. Nevertheless, we are concerned that there may have been some overbuilding in these activities, particularly in motels, and that a decline in travel due to economic conditions and/or fuel availability and cost may bring hard times to the travel industry. According to Employment Security Division figures, another travel-related group—automobile dealers and gas stations—reduced its average annual employment from 9,300 in 1973 to 8,600 during the first ten months of 1974.

### **Agricultural Prosperity: Good for Main Street**

The recent prosperity in Montana's farms and ranches may have contributed to the rapid rise in derivative employment. New jobs may have been created in the trades and services as the net influx of dollars due to increased agricultural receipts were spent and respent within the state. In the interest of brevity, we have not presented the year-by-year data. However, they show that the increases in derivative employment were greater during and after 1972 than before this date. This correlates with the upturn in agriculture and we cannot help but conclude that the two are somehow related.

### **Working Women**

There has been a revolution during recent years in the attitudes of women, especially wives and

mothers, toward working outside the home. More and more females are entering the labor force and actively seeking employment. The extent and speed of this development is demonstrated by the national labor force participation rates shown in table 7. These figures show the percent of the population in each age-sex group in the labor force. Labor force participation rates vary slightly

**Table 7**  
**Civilian Labor Force Participation Rates, by Age and Sex, in the United States**  
**1970 and 1973**  
**(In Percentages)**

Age Group	Males		Females	
	1970	1973	1970	1973
Total, 16 years and over	80.6	79.5	43.4	44.7
16 and 17 years	47.5	50.5	34.9	39.1
18 and 19 years	69.9	73.2	53.7	57.0
20 to 24 years	86.6	86.8	57.8	61.2
25 to 34 years	96.6	95.9	45.0	50.2
35 to 44 years	97.0	96.3	51.1	53.3
45 to 54 years	94.3	93.0	54.4	53.7
55 to 64 years	83.0	78.3	43.0	41.1
65 years and over	26.8	22.8	9.7	8.9

Source: U.S. Department of Labor, 1974 *Manpower Report of the President*, table A-2.

from one year to the next, but usually not more than one or two percentage points. Notice, however, the rapid rise in rates between 1970 and 1973 for females under 34 years of age. These large increases (several are almost 5 percent) are remarkable for a period as short as three years. We do not have comparable data for working women in Montana, but it would be illogical to think that the same changes have not occurred here.

Unfortunately, neither do we have employment figures by sex for years since 1970. Table 8, however, indicates that of the 26,159 new workers added between 1960 and 1970 in trade, services, and finance—those industries where women traditionally have worked—about two-thirds (17,727) were female. Since the trend toward more women working has continued since 1970, we feel

**Table 8**  
**Employment by Sex in Selected Montana Industries, 1960 and 1970**

Industry	Employment		Change in Employment 1960-70	Distribution of Employment (Percent)	
	1960 <sup>1</sup>	1970 <sup>2</sup>		1960	1970
Wholesale trade	7,465	9,360	1,895	100.0	100.0
Male	6,239	7,670	1,431	83.6	81.9
Female	1,226	1,690	464	16.4	18.1
Retail trade	39,629	45,165	5,536	100.0	100.0
Male	22,775	23,468	693	57.5	52.0
Female	16,854	21,697	4,843	42.5	48.0
Finance, insurance and real estate	8,035	9,546	1,511	100.0	100.0
Male	4,369	4,938	569	54.4	51.7
Female	3,666	4,608	942	45.6	48.3
Services <sup>3</sup>	51,451	68,668	17,217	100.0	100.0
Male	20,374	26,113	5,739	39.6	38.0
Female	31,077	42,555	11,478	60.4	62.0
All trade, finance, and service industries, total	106,580	132,739	26,159	100.0	100.0
Male	53,757	62,189	8,432	50.4	46.9
Female	52,823	70,550	17,727	49.6	53.1

Sources: U.S. Bureau of the Census, *U.S. Census of Population: 1960, Detailed Characteristics, Montana*, table 129; and *idem*, *U.S. Census of Population: 1970, Detailed Characteristics, Montana*, table 186.

<sup>1</sup>Persons fourteen years of age and older.

<sup>2</sup>Persons sixteen years of age and older.

<sup>3</sup>Includes business and repair services, personal services, entertainment and recreation services, and professional and related services.

safe in assuming that many of the new jobs in the trade and service industries have been filled by female workers.

Perhaps the greatest significance of this development is the apparent addition of a good many second earners in Montana families; obviously higher labor participation rates and more earners per family accelerate the growth of both per capita and family incomes. At the same time, when the rather impressive increase in the number of new jobs in these industries is cited, it is well to remember that many of them are not jobs suitable for heads of families.

### Average Weekly Hours

Earlier we saw that derivative workers, on the average, have significantly lower annual earnings

than do workers in primary industries. This may be partly due to the fact that they tend to work fewer hours per week. Table 9 presents the average weekly hours for wage and salary workers in selected Montana industries between 1969 and 1973. Notice that the employees in the two largest derivative industries—wholesale and retail trade and the services—tend to work the fewest hours per week. This suggests to us that simply looking at the number of jobs may overstate the growth in these industries. If employment were converted to full-time equivalents—a 40-hour week—the increases would be more moderate. In the trade and service industries, for example, the increase in full-time job equivalents appears to have been about 14,600, in contrast to the 21,300 new jobs actually reported.

Also, it is interesting to note the general

Table 9

## Average Weekly Hours in Private Nonagricultural Industries, Montana, 1969-73

Industry	1969	1970	1971	1972	1973
Manufacturing	40.3	40.0	39.8	40.8	40.2
Mining	42.0	41.3	43.1	41.7	41.2
Contract construction	38.3	37.0	36.8	37.3	37.6
Transportation and public utilities	41.7	41.6	41.2	41.5	40.8
Wholesale and retail trade	37.6	37.7	36.0	35.4	35.7
Finance, insurance, and real estate	35.9	37.2	37.3	36.3	37.0
Services	35.1	34.8	34.6	33.5	33.2

Source: Montana Department of Labor and Industry, Employment Security Division, *Montana Labor Market, Supplement II* and *Montana Employment and Labor Force*, table X.

downward trend in weekly hours in wholesale and retail trade and especially in the services, where there was a decline of over two hours per week between 1969 and 1973. This correlates with the previous observations concerning working women; it is just what we would expect the figures to show if there were an increasing number of working wives and mothers, for whom part-time jobs may be most convenient.

### *Implications of Inflation on State Revenues and Expenditures*

From a fiscal point of view, state governments—including Montana's—tend to benefit from inflation, particularly during the early stages of inflation. The reason for this phenomenon is obvious. State governments budget at one price level and collect the taxes to finance the budget at higher price levels. With given tax rates, tax collections, especially income and excise tax collections, tend to rise as the price level and money incomes rise, while expenditures tend to lag. Wages and salaries of government employees are examples of expenditures that are especially likely to lag behind rises in the price level. Wage

and salary rates tend to be fixed in money terms for a year and often for two years in the case of biennial budgets.

In a way, Montana has been fortunate to have such heavy reliance on the income tax. An income tax with progressive rates such as we have in Montana brings increased revenue in two ways as the price level rises. First, state revenue rises with inflation merely because of the concurrent rise in money incomes. Second, with a progressive rate structure, the effective tax rate rises as income recipients move into higher rate brackets. Economists refer to such relationships as "built-in flexibility." (It should be noted that local governments, heavily dependent on the property tax, do not enjoy such flexibility.)

We should be aware that the built-in flexibility inherent in the Montana tax structure represents a mixed blessing and that in the long run it may be no blessing at all. There are several reasons for this statement:

1. State government gains through such built-in flexibility are likely to be transitory and illusory. Budget surpluses often disappear quickly as a result of public and political pressure for increasing state expenditures and/or reducing tax rates. Such actions are likely to be in conflict with fiscal pragmatism and the public interest.
2. After a while, the prices that the state government pays for goods and services will rise and any initial benefits from inflation will disappear. This will happen rather quickly in the case of commodities, but somewhat later in the case of wages and salaries for public employees as state agencies find it necessary to keep salaries competitive with the private sector. So, state government will soon discover that its "windfall revenues" are eroded and that its revenues in real terms are declining.
3. While state government as a fiscal entity may gain from the built-in flexibility in the tax system, the public may not and probably will not. During inflation the state income tax structure dictates higher effective income tax rates. *But if the income growth rate in the state*



*is lower than the inflation rate, the ability of the public to pay taxes declines when measured in real terms.*

Montana's state government windfall revenue gains from inflation may soon be a thing of the past. The large increases in revenue collections in the past two years are not likely to be repeated. In real terms, tax collections may show very modest increases in the next few years.

### *Montana's Usury Law: Aggravating Financial Problems*

Just as the cost of other commodities increased in the United States in 1974, so did the cost of money. The prime rate (the rate charged by commercial banks on short-term loans to large businesses with the highest credit standing) rose to 12 percent, and exceeded 10 percent during most of the year.

Montana's usury law limits the rate of interest charged by financial institutions to 10 percent. During the past year, the law has limited the return Montana institutions could earn on loans, and as a result they have been unable to compete with out-of-state banks on interest paid to depositors. There is evidence that relatively large amounts of money were transferred from Montana banks to take advantage of higher returns in other states. Such losses, of course, reduce the amount of funds available for loans to Montanans. Low interest rates reduce the cost of borrowing money; but low interest rates are useless if banks haven't enough money to loan, because their resources have been drained out of state.

Some relief may accrue to state financial institutions as a result of recent federal legislation; however, the federal law is restricted in its application and the 10 percent limitation will continue to apply to a good many in-state transactions.







